

**ORIGINAL**

Decision No. 58053

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of

SUBURBAN WATER SYSTEMS, a  
California corporation, for  
permission to borrow money and  
in connection therewith to issue  
and sell First Mortgage Series D  
5-1/4% Bonds under a Third  
Supplemental Trust Indenture  
to be dated as of May 15, 1957

Application No. 39069

O P I N I O N

In this application Suburban Water Systems requests that the Commission grant it authority to execute a purchase agreement and a third supplemental trust indenture, and to issue \$1,000,000 in principal amount of its First Mortgage Bonds in order to re-finance existing short-term loans, to pay refunds on consumers' advances and to finance, in part, the cost of constructing additional facilities.

Applicant is a California corporation engaged in the public utility business of distributing water in Los Angeles County. Annual reports on file with the Commission show that the number of consumers served by applicant increased from 23,822, as of December 31, 1954, to 30,125, as of December 31, 1955, and by referring to Exhibit No. 4 attached to the application it is noted that the number of consumers had further increased to 34,524, as of February 28, 1957, an increase of approximately

45 per cent in a 26-months' period. During this same period of time, or from December 31, 1954 to February 28, 1957, applicant's investment in fixed capital, after deducting applicable reserves for depreciation and amortization, has increased from \$6,973,613 to \$11,674,404, an increase of \$4,700,791 or 68 per cent. In the February 28, 1957 balance sheet attached to the application as Exhibit No. 3, applicant reports assets and liabilities as follows:

Assets

Fixed capital			
Tangible capital	\$11,947,392		
Less: Depreciation reserve	<u>1,108,465</u>		
Net tangible capital		\$10,838,927	
Intangible capital - net		<u>835,477</u>	
Total fixed capital			\$11,674,404
Current assets			356,397
Deferred charges and other assets			<u>206,496</u>
Total assets			<u><u>\$12,237,297</u></u>

Liabilities

Capital stock and surplus			
Preferred stock			
Class A 5-1/4% cumulative	\$ 708,950		
Class B 3% cumulative	<u>1,760,430</u>	\$ 2,469,380	
Common stock		433,550	
Capital surplus		543,260	
Paid in surplus		247,344	
Earned surplus		<u>232,564</u>	
Total capital stock and surplus			\$ 3,926,098
First Mortgage Bonds			
Series A 4-7/8%		\$ 1,972,000	
Series B 4-1/8%		750,000	
Series C 4-1/4%		<u>1,750,000</u>	
Total first mortgage bonds			4,472,000
Current liabilities			716,415
U. S. Army advance on condemnation			93,850
Consumer advances for construction			2,703,825
Contributions in aid of construction			324,598
Other deferred credits			<u>451</u>
Total liabilities			<u><u>\$12,237,297</u></u>

In the income statement for the year 1956 attached to the application as Exhibit No. 6, applicant reports gross operating revenues of \$1,477,420 and net profit, before income taxes, of \$215,166. The comparable figures, as shown in applicant's 1955 annual report, are gross operating revenues of \$1,161,379 and net profit, before income taxes, of \$186,355.

Included in the amount reported in the February 28, 1957 balance sheet as current liabilities are short-term bank loans in the amount of \$200,000. Applicant anticipates that such bank loans will have increased in amount to \$500,000 by June 1, 1957. To refinance these bank loans and to provide the funds necessary to meet other expenditures, applicant proposes to issue and sell \$1,500,000 in principal amount of its First Mortgage Series D 5-1/4% Bonds. It is proposed that \$500,000 of bonds will be sold prior to June 30, 1957, that a second increment of \$500,000 will be sold prior to September 30, 1957 and that the remaining \$500,000 of bonds will be sold prior to December 31, 1958.

In Exhibit No. 8 attached to the application are tabulations which show the use which applicant proposes to make of the proceeds from the issue and sale of the first and second increments of the Series D bonds, as well as for the entire issue. The information contained in Exhibit No. 8 is summarized in the following tabulation:

	<u>Total Issue</u>	<u>First and Second Increment</u>
To repay bank loans	\$ 500,000	\$ 500,000
To pay cost of issuing Series D Bonds	30,000	30,000
To pay refunds due on consumers' advances	444,500	300,000
To buy stock in mutual water companies	30,000	-
To make improvements to water system	<u>495,500</u>	<u>170,000</u>
Total	<u>\$1,500,000</u>	<u>\$1,000,000</u>

The first and second increments of the Series D bonds to be sold are to be dated June 1, 1957 and due June 1, 1977 and are to be sold at par, plus accrued interest, to The Lincoln National Life Insurance Company, Pacific Mutual Life Insurance Company, and Bankers Life Insurance Company of Nebraska under the terms and conditions set forth in a proposed purchase agreement between the applicant and purchasers, a copy of such agreement is attached to the application as Exhibit No. 1. The bonds to be issued will be secured by a deed of trust and will be redeemable at par, plus accrued interest, plus a premium of 5-1/4% if redeemed prior to June 1, 1964 and thereafter reducing four-tenths of one per cent each year until June 1, 1977, except that no Series D bonds may be redeemed prior to June 1, 1963 if the funds to be used for that purpose have been obtained from the issue and sale by applicant of securities having an interest rate of less than 5-1/4% per annum. The deed of trust will be an open-end indenture in the form of a third supplemental to the trust indenture dated October 1, 1953, which trust indenture applicant executed under authorization granted by this Commission in Decision No. 49423,

dated December 15, 1953, in Application No. 34873. From the detail contained in applicant's February 28, 1957 balance sheet, it appears that the investment in fixed capital totals \$11,674,404 after deducting the related reserves for depreciation and amortization, that there are \$2,703,885 of consumers' advances for construction outstanding and that the balance of the capital structure consists of bonds, stock and surplus totaling \$8,398,098. A tabulation showing the capital ratios existing as of February 28, 1957, and after giving effect to the issue of \$1,000,000 of bonds and the use of \$300,000 of the proceeds from the bond issue to refund consumers' advances, as herein proposed on a pro forma basis, follows:

	<u>February 28, 1957</u>	<u>Pro Forma</u>
Bonds	40%	46%
Advances for construction	25	21
Subtotal	<u>65</u>	<u>67</u>
Preferred stock	22	21
Common stock equity	<u>13</u>	<u>12</u>
Total	<u>100%</u>	<u>100%</u>

Excluding advances for construction from the computations of the capital ratios as of February 28, 1957, and on a pro forma basis including the proposed issue of \$1,000,000 of bonds, the long-term debt represents 53 per cent and 58 per cent, respectively, of the capital structure. It is thus apparent that applicant has continued to finance itself primarily through the use of debt capital.

In Decision No. 52240, dated November 14, 1955, in Application No. 37401 and in subsequent decisions, the Commission has stated that applicant should give prompt consideration to the

issuance of equity securities as a means of financing its future construction requirements. In this connection, it is noted that during the period December 31, 1954 to February 28, 1957, applicant financed its construction growth in the following manner:

Preferred stock		
Issues of Class A 5-1/4%	\$340,750	
Issues of Class B 3%	<u>910,165</u>	
Total preferred issues		\$1,250,915
Increases in common stock equity due to reinvestment of retained earnings		105,213
Issues of bonds		1,972,000
Net increase in consumer advances for construction		<u>959,844</u>
Total		<u>\$4,287,972</u>

It is thus apparent that applicant is continuing its practice of using debt capital and consumers' advances for construction as the primary sources of money with which to finance its construction program. Applicant's attention is again directed to the fact that it is the Commission's opinion that prompt consideration should be given to the issuance of equity securities as a means of financing future construction requirements. In this connection the Commission takes note of the fact that applicant has on file an application to issue an additional \$1,200,000 par value of preferred stock for the purpose of refunding outstanding consumer advance contracts.

A review of the application indicates that applicant has a present need for the funds to be procured from the issue of its securities as herein authorized. The Commission's authorization will be limited at this time to the first and second increments of bonds, a total of \$1,000,000 par value which applicant proposes to sell on or before September 30, 1957.

It is the Commission's finding in this proceeding that the funds to be procured from the herein authorized sale of securities are required by the company for the purposes indicated herein, that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required by Suburban Water Systems for the purposes specified herein and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The authority herein granted is for the issue of securities only and is not to be construed as a finding by the Commission as to amounts which will be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Suburban Water Systems on and after the effective date hereof and on or before November 30, 1957, may issue and sell not to exceed \$1,000,000 in principal amount of its First Mortgage Series D 5-1/4% Bonds at par, plus accrued interest and may use the proceeds for the purposes set forth in its

application. The accrued interest from the sale of the bonds may be used for such purposes or for general corporate purposes.

2. Suburban Water Systems may execute a purchase agreement and a third supplemental trust indenture in, or substantially in, the same form as those filed in this proceeding as Exhibits No. 1 and No. 2, respectively.

3. Suburban Water Systems shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when Suburban Water Systems has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,000.

Dated at San Francisco, California, this 4<sup>th</sup> day of June, 1957.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
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BY [Signature]